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3 HIF344.170

4 ``THE STATE OF ONLINE GAMING''

5 TUESDAY, DECEMBER 10, 2013

6 House of Representatives,

7 Subcommittee on Commerce, Manufacturing, and Trade

8 Committee on Energy and Commerce

9 Washington, D.C.

10 The Subcommittee met, pursuant to call, at 12:36 p.m.,
11 in Room 2123 of the Rayburn House Office Building, Hon. Lee
12 Terry [Chairman of the Subcommittee] presiding.

13 Members present: Representatives Terry, Lance,
14 Blackburn, Harper, McKinley, Bilirakis, Johnson, Barton,
15 Schakowsky, McNerney, Welch, and Barrow.

16 Staff present: Charlotte Baker, Press Secretary; Kirby

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17 Howard, Legislative Clerk; Nick Magallanes, Policy
18 Coordinator, Commerce, Manufacturing, and Trade; Gib Mullan,
19 Chief Counsel, Commerce, Manufacturing, and Trade; Shannon
20 Weinberg Taylor, Counsel, Commerce, Manufacturing, and Trade;
21 Michelle Ash, Democratic Chief Consumer Protection Counsel;
22 and Will Wallace, Democratic Professional Staff Member.

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23 Mr. {Terry.} Jan is on her way. I am sorry, Ranking
24 Member Schakowsky is on her way and said it was all right to
25 go ahead and start. Before I start my opening statement I
26 want to introduce and thank our witnesses for being here, and
27 so I will go down the list of our witnesses. Mr. Freeman,
28 Geoff Freeman, is President and Chief Executive Officer,
29 American Gaming Association. Then Mr. Andrew Abboud, Vice
30 President of Government Affairs and Community Development at
31 Las Vegas Sands Corporation; John Pappas, Executive Director
32 of Poker Players Alliance; Les Bernal, National Director,
33 Stop Predatory Gambling; Kurt Eggert, Professor of Law, Dale
34 Fowler School of Law, Chapman University; and then Rachel
35 Volberg, Ph.D.--I got you two switched--Associate Professor,
36 School of Public Health and Health Sciences at the University
37 of Massachusetts Amherst. And I appreciate you all being
38 here today. In Nebraska, we wouldn't even consider
39 cancelling a hearing for this little, brief flurry that they
40 have here in D.C., or Chicago, my gosh. So we are forging
41 ahead, and I appreciate the fact that all of our witnesses
42 stayed true. And of course, you guys probably got here

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43 before all the panic ensued anyway. But we appreciate you
44 sticking tight with us.

45 So we will start. Good morning, and welcome all the
46 people here in attendance today. We will be reviewing H.R.
47 2666, the Internet Poker Freedom Act sponsored by my
48 colleague on the committee, Mr. Joe Barton. This legislation
49 addresses a timely issue, the legality of online gaming,
50 specifically pertaining to Internet poker.

51 Today's hearing title aptly describes why we are here,
52 and I am very interested in the state of online gaming in the
53 United States and think the issue is ripe for Congress to
54 conduct oversight of this matter. Several different factors
55 have led to an environment in the United States where the
56 status of online gaming is murky, at best. One, a recent DOJ
57 opinion that reinterpreted the Wire Act opened the door for
58 online gaming, except for sports betting, to be hosted on an
59 intrastate basis. This has led to a patchwork of state laws
60 with seven states moving to outlaw online gaming while others
61 have authorized it in different forms, the most expansive
62 being so far New Jersey, which has authorized multiple forms
63 of Internet gambling, and of course, Nevada is moving in that

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64 same direction.

65 In addition to the patchwork of state laws, a multi-
66 national patchwork exists as well. According to a white
67 paper by the American Gaming Association, over 85 countries
68 have chosen to legalize Internet gaming to some extent.
69 While the United States has not explicitly legalized it, our
70 citizens still account for about 15 percent of the global
71 revenues to the roughly 2,700 Web sites which host online
72 gaming. This means that Americans are patronizing these
73 offshore Web sites to the tune of over a billion dollars a
74 year, and as if that is not confusing enough, as we will hear
75 today, the American gaming industry also does not seem to be
76 in agreement on a clear path forward for the future of online
77 gaming domestically.

78 The issues are very concerning to me. While unfettered
79 online gaming here in the United States is surely not the
80 ideal, absent a clear mandate from Congress, we risk exposing
81 our constituents to an environment of a race to the bottom,
82 which could present itself. It is my hope that hearings such
83 as this one will shed light on what logical steps Congress
84 can take to address this growing dilemma. While I understand

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85 and agree that Congress should not trample on the rights of
86 states, I believe it is critical that we gain an
87 understanding for the integrity of the different state
88 standards, how this affects the citizens of other states and
89 what the role of the Federal Government should be in the
90 future of domestic online gaming.

91 I am pleased to say that we will be hearing from a
92 balanced panel of experts today, and I stress balanced
93 because in planning this hearing I want to make sure that we
94 heard from as many sides of this debate in all of its nuances
95 as possible.

96 And I would like to again thank all of our witnesses for
97 being here and yield the last 2 minutes to Mr. Lance.

98 [The prepared statement of Mr. Lee follows:]

99 ***** COMMITTEE INSERT *****

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100 Mr. {Lance.} Thank you, Mr. Chairman. The legal gaming
101 industry is a multi-billion dollar operation with significant
102 economic impact in the State of New Jersey, which I represent
103 here in Congress, and of course, in the United States.

104 According to the American Gaming Association, commercial
105 casino operator's reported revenue of \$37.3 in 2012. In New
106 Jersey, revenue from legal gaming in 2012 topped \$3 billion.

107 In recent years the development of mobile technology and
108 the Justice Department's 2011 legal interpretation of the
109 Wire Act have opened the door for states to operate Internet
110 gaming within their borders. In November, New Jersey became
111 the third state to operate Internet gaming, joining Nevada
112 and Delaware.

113 Online gaming in New Jersey allows consumers who are
114 present within the State to have access to the same games of
115 skill and chance that are offered in Atlantic City's casinos.
116 Online gaming has the potential to provide much-needed
117 revenue to Atlantic City and to the State of New Jersey's
118 budget. A report in our largest newspaper, the Newark Star
119 Ledger, states that Internet gambling is expected to produce

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120 hundreds of millions, if not billions, of dollars in revenue
121 annually. Since 1978 when gambling began in Atlantic City
122 the gaming industry has been an important part of New
123 Jersey's economy, and Internet gaming has the potential to
124 reinvigorate the State's industry and secure its financial
125 solvency in the future.

126 At this hearing we will also examine legislation
127 introduced by my friend and colleague, Representative Barton
128 of Texas, the Internet Poker Freedom Act of 2013. This
129 legislation would establish a program for the licensing of
130 Internet poker by states and federally-recognized Indian
131 tribes.

132 I look forward to examining this legislation and the
133 hearing and testimony from the panel on the state of online
134 gaming. Thank you, Mr. Chairman.

135 [The prepared statement of Mr. Lance follows:]

136 ***** COMMITTEE INSERT *****

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137 Mr. {Terry.} Thank you, Mr. Vice Chairman. I now
138 recognize the Ranking--

139 Ms. {Schakowsky.} Do you want to ask unanimous--

140 Mr. {Terry.} Oh, yes. Thank you. Ask unanimous
141 consent to allow Mr. Heck from the greater Las Vegas area to
142 join us on the panel today. Hearing none, so ordered. I now
143 recognize the gentlelady from Chicago, the ranking member of
144 the subcommittee for her 5 minutes.

145 Ms. {Schakowsky.} Thank you, Mr. Chairman. I look
146 around. I see there are no weather wimps in this room, and I
147 welcome all of you. I know us Midwesterners, this is
148 nothing. We don't get it.

149 But anyway, I am very happy that you are here to give
150 your testimony. This is an important issue that has a
151 significant following, and I look forward to hear from our
152 witnesses and gaining from all of your perspectives.

153 The issue of online gambling is incredibly complex and
154 is certainly deserving of our attention. It also is becoming
155 increasingly important as last month New Jersey joined Nevada
156 and Delaware as the only States to offer real money, online

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157 casino games. Most states are considering or many states are
158 considering similar action, possibly including my home State
159 of Illinois.

160 I understand that some amount of gambling is already
161 occurring online. Establishing a stronger federal role might
162 improve oversight, reduce illegal operations and provide new
163 revenues at the federal or state level. However, I do have
164 some serious concerns about expanding online gambling.
165 Studies show that low income workers, minorities, retirees
166 suffer disproportionately from problem gambling. It is
167 important that if online wagering expands, protections are in
168 place to prevent the exploitation of vulnerable populations.
169 That should include limitations on using lines of credit
170 rather than real assets to bet. The government should not be
171 in the business of increasing the number of people struggling
172 with gambling addiction.

173 As a lifelong consumer advocate, I also think it is
174 critical if federal legislation is to expand online gambling
175 it does so with consumer protections as a top priority.
176 Safeguards must be in place to ensure that consumer data is
177 well protected. That can be accomplished in part by ensuring

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178 that standards are in place to limit the unnecessary
179 collection of consumer information. Consumers must be
180 adequately informed of the data being collected about them
181 and the policies regarding the handling of that data. In any
182 legislation to expand online gambling, high standards of
183 privacy must be maintained for those who choose to engage or
184 not to engage in online gambling. Information about frequent
185 betters or those who have self-identified as problem gamblers
186 to limit their access to online gambling must not be shared
187 or sold without the consent of that individual. Individual
188 consent should not be wrapped up in a complex privacy
189 agreement but should be clear and transparent to the user.
190 If an expansion of online gambling is allowed, those who
191 choose to play should also have confidence that the game they
192 are playing is operated with integrity.

193 Is it bots?

194 Mr. {Terry.} Bots.

195 Ms. {Schakowsky.} I don't even know what that is.

196 Bots, collusion and other unfair practices must be kept away
197 from any gambling Web sites created to maintain fairness for
198 players. I thought maybe that is bets or bats or whatever.

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199 Again, I appreciate the varied perspectives of our
200 witnesses, and I look forward to hearing from them today
201 about the current state of online gambling, where we go from
202 here and how any future actions can address the many consumer
203 protection concerns that I have raised. And I yield back,
204 Mr. Chairman, and I think--let us see, Mr. Welch, I asked the
205 others. Are you interested in the remaining time?

206 Mr. {Welch.} You spoke for me.

207 Ms. {Schakowsky.} I spoke for him. Thank you. I yield
208 back for all of us.

209 [The prepared statement of Ms. Schakowsky:]

210 ***** COMMITTEE INSERT *****

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211 Mr. {Terry.} All right. Mr. Barton, you are now
212 recognized for 5 minutes. You control the--all 5 minutes.

213 Mr. {Barton.} Thank you, Mr. Chairman. To my good
214 friend, Jan Schakowsky, a bot is a computer program that uses
215 artificial intelligence and pre-programmed instructions to
216 play not just poker or games of chance but all kinds of
217 things on the Internet. And it is there. They are not good
218 things, in my opinion. So that is what a bot is.

219 I want to welcome some former members out in the
220 audience. Jon Porter of Nevada, and the former Chairman of
221 the Ag Committee, from California I think, Richard Pombo is
222 out there, and so we welcome him back to Congress.

223 I want to tell the committee, Mr. Chairman, that God
224 must be for this bill because I got up this morning at 4:00
225 in Ennis, Texas, outside of Dallas and braved icy roads and
226 20-degree temperatures to get to DFW airport when my good
227 friends at American Airlines left exactly on time and God put
228 a 200-mile-an-hour tailwind behind the plane and I got here
229 an hour early. So that tells me that God is for this bill.
230 That is my opinion.

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231 Well, Mr. Chairman, I first want to thank you for
232 holding this hearing and Chairman Upton and Ms. Schakowsky
233 and Mr. Waxman for agreeing to do it. I want to thank our
234 witnesses. This is a serious issue, and it has a lot of
235 ramifications for the country.

236 When I first got elected 30 years ago, there was no such
237 thing as the Internet. You could actually still send a
238 telegram. And I talked about flying up here on American
239 Airlines this morning. Members of Congress still got two
240 paid, roundtrip train tickets to their district. Okay? The
241 world was completely different. If you wanted to make a bank
242 deposit, you had to literally go to the bank. If you wanted
243 to see a doctor, you had to literally go to a doctor's
244 office. Everything had to be done in person.

245 Well, now we have the Internet and iPhones and iPads and
246 apps and all these things. Just about the only thing you
247 can't do anymore on the Internet is play poker, and that is
248 changing. As Ms. Schakowsky has pointed out, lots of states
249 are beginning to allow intrastate poker and/or other games of
250 chance. Only 2 states in the Union don't allow within their
251 borders some form of gaming, 2 out of 50.

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252 So I think the time has come to recognize that in the
253 Internet age we need to regulate and set a level playing
254 field for those of us who would like to play poker online.
255 And I want to emphasize that the Internet Poker Freedom Act,
256 H.R. 2666, is a poker-only bill. And for my good friends on
257 the Republican side of the aisle, it is a states' rights,
258 user-friendly bill. It is an opt-out. We start out saying
259 all 50 states are going to allow poker to be played, but if a
260 state doesn't want to do it, it just takes the governor of a
261 state to write a letter maybe even on the back of a postcard,
262 send it to the Secretary of Commerce, and that state will not
263 allow Internet poker within its boundaries.

264 H.R. 2666 has been developed in openness and
265 transparency. It is a refined product of a similar bill that
266 I introduced in the last two Congresses. I think it is a
267 good work product. I think it would work. I think it would
268 provide fairness and all the things that several of the other
269 members who have talked about this this morning support. It
270 is not a perfect bill, and obviously the purpose of this
271 hearing will be to see where it needs to be improved. There
272 are some that talk about the problems of addiction and

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273 gambling to excess. We have taken every recommendation in
274 the bill from the advocates who want to try to prevent such
275 bad behavior.

276 So Mr. Chairman, I look forward to the hearing. I do
277 appreciate you holding it. And I will point out that in the
278 last Congress a similar hearing in this subcommittee was the
279 most-watched hearing of the entire Energy and Commerce
280 Committee in terms of people watching it over the Internet.
281 So I am sure we are going to have a lot of people watching
282 this today.

283 [The prepared statement of Mr. Barton follows:]

284 ***** COMMITTEE INSERT *****

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|

285 Mr. {Terry.} Yeah, I think we will, especially since we
286 are the only hearing.

287 Mr. {Barton.} That is a tribute to your leadership, Mr.
288 Chairman.

289 Mr. {Terry.} Timing. But Joe, under your states'
290 rights, I will have to ask you at some point in time after
291 the hearing if it is all right then if a governor could ban
292 Texas Hold'em and just allow Omaha.

293 Mr. {Barton.} We will talk, Mr. Chairman.

294 Mr. {Terry.} Thank you.

295 Mr. {Barton.} If that is the only problem we--

296 Mr. {Terry.} Yeah, good point. All right. So our
297 Vegas routine is now completed, and now off to business here
298 with our witnesses here.

299 Some of you have been here before, and you know how it
300 works. You have 5 minutes to give us your statement. There
301 is a little light down there. Green means go, yellow means
302 start wrapping it up, red means I am going to start tapping
303 the gavel and go onto the next. And then at the end of Mr.
304 Eggert's testimony, we will open it up to the questions, of

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305 which each member will have 5 minutes.

306 So with that, Mr. Freeman, thank you all again for being

307 here, and you are recognized for 5 minutes.

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308 ^STATEMENTS OF GEOFF FREEMAN, PRESIDENT AND CEO, AMERICAN
309 GAMING ASSOCIATION; ANDREW ABBOUD, VICE PRESIDENT, GOVERNMENT
310 RELATIONS AND COMMUNITY DEVELOPMENT, LAS VEGAS SANDS
311 CORPORATION; JOHN PAPPAS, EXECUTIVE DIRECTOR, POKER PLAYERS
312 ALLIANCE; LES BERNAL, NATIONAL DIRECTOR, STOP PREDATORY
313 GAMBLING; RACHEL VOLBERG, PH.D., ASSOCIATE PROFESSOR, SCHOOL
314 OF PUBLIC HEALTH AND HEALTH SERVICES, UNIVERSITY OF
315 MASSACHUSETTS AMHERST; AND KURT EGGERT, PROFESSOR OF LAW,
316 DALE E. FOWLER SCHOOL OF LAW, CHAPMAN UNIVERSITY

|

317 ^STATEMENT OF GEOFF FREEMAN

318 } Mr. {Freeman.} Thank you, Chairman Terry, and Ranking
319 Member Schakowsky and members of the subcommittee. It is
320 great to come back before the committee again. I did this
321 several times while with the U.S. Travel Association and
322 appreciate the opportunity to work with you.

323 This hearing couldn't be more timely. Three states have
324 already kicked off their versions of online gaming, New
325 Jersey, Nevada and Delaware. The demand to play is high, and

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326 your attention is critical.

327 I would like to start by joining the almighty and
328 thanking Congressman Barton for his leadership on this issue
329 and pragmatic efforts to create a regulated gaming
330 environment. That is certainly what we need more of.

331 There are three points that I would like to make to
332 committee today. The first is that the experience of the
333 past several years has yielded one crystal clear conclusion
334 and that conclusion is the prohibition of online gaming has
335 not and will not work. Until this year, online gaming, poker
336 or otherwise, has been illegal in every corner of the
337 country, and the Justice Department has led an aggressive
338 crackdown on offshore operators. The result? Last year
339 Americans spent nearly \$3 billion on illegal offshore gaming
340 sites constituting nearly 10 percent of the entire worldwide
341 online gaming market.

342 In other words, recent prohibition attempts have only
343 created a thriving black market. This should come as no
344 surprise to a country where sports betting takes place in
345 just about everywhere despite an ostensibly blanket
346 government prohibition. In fact, it is fair to argue that

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347 prohibition has given shady offshore operators the best ally
348 they could imagine. Legitimate operators, such as my
349 members, respect the law, have licenses at stake and stay out
350 of the American market. Illegal operators disobey the law
351 and often disregard their own customers. Make no mistake,
352 online gaming is here to stay. The government cannot put the
353 Internet back into the bottle. The question is are we going
354 to regulate online gaming or allow the black market to
355 continue to thrive.

356 My second point is the demand for online gaming will
357 only continue to grow. The world over, the Internet is
358 changing how we live our lives and it is certainly changing
359 the face of business. Some companies get on the first wave
360 of that change and thrive in the marketplace. Other
361 companies, like Blockbuster or Hollywood Video for example,
362 refuse to adapt to the needs of their customers and are left
363 in innovation's wake.

364 Just 2 weeks ago, in the very first week that online
365 gaming was offered legally in New Jersey, more than 50,000
366 people signed up. Last week Juniper Research estimated that
367 100 million will conduct gambling on mobile devices by 2018.

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368 The demand is extraordinary and certainly not going away.

369 With this demand and the blossoming black market, my
370 final point is that there is an important role for the
371 Federal Government. Congress should provide a uniform set of
372 protections for consumers while respecting states' rights to
373 choose what is in their best interests. The AGA supports a
374 strong regulatory regime that insists on player
375 identification, age verification, transparent records of all
376 transactions, geolocation, aggressive tools for responsible
377 gaming and help for those with gambling disorders. New
378 technologies are proven to detect the vulnerable and those
379 who may wish to do us harm. And it is worth noting that as
380 an industry, we are completely aligned on the need to protect
381 vulnerable populations, even as we may disagree on the best
382 means of doing so.

383 The United Kingdom, France, Italy, Spain, Denmark,
384 Belgium, Sweden, Finland, Australia, Japan, Hong Kong and
385 Canada, just to name a few, have all considered the serious
386 issues brought before you today, and all have chosen to
387 pursue a regulated market. Consumers are protected, national
388 security concerns are addressed and economic development is

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389 realized.

390 In conclusion, let me say that Americans will always
391 gamble, offline, online or in whatever form is invented in
392 the coming years, and as countless studies show, more than 95
393 percent will do so in a responsible manner. We believe the
394 best protection for consumers and for our country is strong
395 and effective regulation that respects states' rights. We
396 look forward to working with you and others in Congress to
397 build the type of regulatory framework that is important
398 here.

399 Thank you for inviting me, and I look forward to your
400 questions.

401 [The prepared statement of Mr. Freeman follows:]

402 ***** INSERT A *****

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403 Mr. {Terry.} Thank you. And now Mr. Andy Abboud, you
404 are recognized for 5 minutes.

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405 ^STATEMENT OF ANDREW ABBOUD

406 } Mr. {Abboud.} Thank you, Congressman Terry, Madam
407 Ranking Member. I have to say it is an honor for me. This
408 is my first time testifying before Congress and have a unique
409 opportunity to testify before two hometown congressmen, one
410 being my Husker friend here, Congressman Lee Terry, and my
411 congressman in Las Vegas, Congressman Joe Heck. Thank you
412 for allowing us to be here today.

413 I have three simple points as well. I am the Senior
414 Vice President for the Las Vegas Sands Corp. in Las Vegas,
415 Nevada. We are the world's largest gaming company in the
416 world by market cap. We have three simple points. Internet
417 gambling takes gambling too far. We would like Congress to
418 restore the Wire Act, and we would implore Congress to shut
419 down the illegal gaming sites that are out there today.

420 Simply, a lot of people say it can't be done. Congress
421 did it by shutting down 1,200 online pharmacies that were
422 black market pharmacies. It can be done, it needs to be
423 done. There are no provisions in place to do that.

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424 The thought of every single one of these becoming a
425 casino should concern all of you. You go into states like
426 Florida where we are negotiating for an opportunity to spend
427 \$3 to \$4 billion on an integrated resort creating tens of
428 thousands of jobs. And not a casino-centric mentality which
429 is what the industry has moved away from. But you have to
430 negotiate each gaming position. Can you do 2,000 machines?
431 Can you do 100 tables? And you have to figure out how you
432 blend into the marketplace so you don't saturate the market,
433 so you don't injure the existing infrastructure, so there is
434 just not too much of it.

435 And now, for whatever reason, they want to turn every
436 single one of these into a casino with unlimited access,
437 unlimited provisions. Congressman Terry, I am pretty sure
438 that I have known your family from the beginning. Your
439 father delivered the news on Channel 7 when I was growing up,
440 and I know that you and I probably never saw our parents'
441 credit card, let alone did we touch it. But the world has
442 changed. Children have 100 percent access to credit cards.
443 They buy their apps with it, they buy their iTunes with it.
444 And I don't want to speak to the integrity or the

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445 intelligence of anyone here on this committee and their
446 ability to understand technology, but if they legalize it, it
447 is going to be the kids that teach their parents how to get
448 on.

449 There is a point when it goes too far. Simply because
450 we can, doesn't mean we should. December 2011 was not the
451 day that the Internet became safe. It is the day the Wire
452 Act was overturned. And rather than my industry rushing to
453 make the marketplace more safe, it has become a rush to the
454 marketplace, without any provisions. The Internet, bots,
455 netbots, all those things, Congresswoman, are more prevalent
456 than ever. The Internet is more dangerous than ever.

457 But I have a lot of respect for Geoff Freeman and for
458 the American Gaming Association, and I have tremendous
459 respect of our competitors on the strip. We just happen to
460 disagree on this issue.

461 But I also have a lot of respect for Frank Fahrnekopf
462 who was Geoff's predecessor, and I want to read a letter he
463 put in Gaming Compliance in just February of 2012.

464 `Finally, it is important to remember what the DOJ decision
465 really is. It is an opinion of the current Justice

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466 Department, not the law of the land as determined by the
467 Supreme Court or any other court decision. The opinion is
468 counter to that of four prior administrations that considered
469 this matter, and when President Obama ultimately leaves
470 office, the DOJ serves under the next president to reverse
471 this opinion. Near the end of last year I had the
472 opportunity to testify on behalf of the commercial gaming
473 industry before the U.S. House Committee on Energy and
474 Commerce, Subcommittee on Commerce, Manufacturing, and Trade.
475 I told Congress that without a federal framework on online
476 gaming, there will be a patchwork quilt of rules and
477 regulations that while aimed at protecting consumers could
478 have the opposite effect by confusing customers and making it
479 difficult for law enforcement to manage. I believe that
480 still in the DOJ's opinion and its implication reinforce my
481 concerns.''

482 Members of the committee, the thought of a 50-state
483 solution is scary. We are imploring on Congress to act, to
484 restore the Wire Act, to conduct a study, if it shows that
485 the Internet can eventually be safe. But it is time to stop.
486 Don't make a race to the bottom of the marketplace. Restore

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487 the Wire Act and protect American consumers. Thank you, and

488 I look forward to your questions.

489 [The prepared statement of Mr. Abboud follows:]

490 ***** INSERT B *****

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|

491 Mr. {Terry.} Thank you. Mr. Pappas, you are now
492 recognized for 5 minutes.

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|

493 ^STATEMENT OF JOHN PAPPAS

494 } Mr. {Pappas.} Thank you. Chairman Terry, Ranking
495 Member Schakowsky, and distinguished members of this
496 committee, I would like to thank you for holding this hearing
497 and for allowing me to testify.

498 I have the great honor of serving as Executive Director
499 of the Poker Players Alliance, an organization of 1.2 million
500 American poker enthusiasts. Poker players are passionate
501 about the freedom to play this game, and I have little doubt
502 that every member of this subcommittee has heard from poker
503 activists in their home states urging Congress to enact a
504 sensible federal policy that licenses and regulates Internet
505 poker.

506 It is my hope that the committee will respond by taking
507 up legislation introduced by Congressman Joe Barton, H.R.
508 2666, the Internet Poker Freedom Act. The PPA stands in
509 strong support of Congressman Barton's bill, and I
510 congratulate the Chairman Emeritus for his leadership on this
511 issue, and the poker player community thanks God that you are

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512 on our side.

513 The Internet Poker Freedom Act focuses on corralling the
514 current unregulated marketplace and turning it into a system
515 that is safe to consumes and accountable to regulators and
516 our government. The bill mandates technologies to protect
517 consumers from fraud, eliminate underage access and mitigate
518 problem gambling. Mr. Barton's bill does not force any state
519 to participate in the federal system, and it allows states to
520 implement their own online gaming regulations. This is
521 especially important given that three states, Nevada,
522 Delaware and New Jersey, have authorized and are regulating
523 Internet poker and Internet gaming today.

524 While the PPA would prefer the passage of a federal
525 Internet poker bill, we strongly support the rights of states
526 to pursue Internet gaming opportunities in the absence of a
527 federal law.

528 The adoption of regulated Internet gaming in the United
529 States means the policymakers can no longer consider
530 regulated Internet gaming as a theoretical. It is not a
531 theory, it is a reality, and it is here today. Not only can
532 we reference the current U.S. regulated market, we also have

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533 the benefit from learning from Europe where it has been
534 regulated for more than 10 years. Of course, there are those
535 who advocate for a ban on Internet poker and Internet gaming.
536 This misguided approach would only serve to harm the most
537 vulnerable populations that regulation properly protects.

538 I would like to take a moment to provide the
539 subcommittee with information on how a combination of
540 regulation and technology can meet these challenges. Due to
541 time constraints, I urge you to review my submitted testimony
542 for a more in-depth review of these facts.

543 With respect to underage access, gaming site operators
544 are required to implement state-of-the art age verification
545 software before being licensed and before accounts are opened
546 and bets are settled. Failure to undertake rigorous age
547 verification would result in the loss of a license and the
548 closure of a business. While the U.S. market is still very
549 new, it is notable that in Nevada, which began accepting
550 Internet poker play in April of this year, there has not been
551 a single reported incident of underage access.

552 Another important matter is to ensure we are
553 appropriately addressing problem gambling. Comprehensive

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554 research on the issue concludes that online gaming operators
555 have effective and sophisticated tools to prevent and combat
556 problem gaming. Most regulated online gaming markets require
557 their licensees to employ these technologies to monitor their
558 players and combat against problem gaming abuse.

559 Finally, opponents of Internet gaming have claimed that
560 the activity is vulnerable to fraud and criminality. Let me
561 say that prohibition will just play into the hands of the
562 criminal element just as it did in the 1920s when alcohol was
563 banned. It is far better for the players' financial fate if
564 the safety and security of their Internet gaming transactions
565 are in the hands of the U.S. banking system and responsible,
566 regulated American gaming corporations.

567 Again, I ask that you refer to my submitted testimony
568 for greater details on these issues, and I welcome the
569 opportunity to discuss them further in the Q&A portion of
570 this hearing. In closing, it might be useful to focus on the
571 questions that are not before the committee right now.

572 First, this committee is not deciding whether Americans will
573 gamble on the Internet. Millions of them do so today, and
574 except in a few states where the activity is licensed, they

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575 are playing on offshore sites with uneven regulation at best.

576 Second, the committee need not ask if Internet gaming
577 can be successfully regulated. It is successfully regulated
578 today in European jurisdictions, and here in the United
579 States, online casino and poker games are regulated in three
580 states and online lottery and horse bets are successfully
581 regulated in dozens more. The question before this committee
582 is who, if anyone, will provide U.S. players with a safe and
583 well-regulated place to play poker on the Internet. We
584 continue to urge Congress to enact the Barton bill and thus
585 accomplish this federally. At a minimum, we urge Congress to
586 do nothing to prevent the states from licensing and
587 regulating Internet poker.

588 Once again, Mr. Chairman, members of the committee, I
589 thank you for the opportunity to testify, and I look forward
590 to answering your questions.

591 [The prepared statement of Mr. Pappas follows:]

592 ***** INSERT C *****

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|

593 Mr. {Terry.} Thank you. Mr. Bernal, you are now
594 recognized for 5 minutes.

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|

595 ^STATEMENT OF LES BERNAL

596 } Mr. {Bernal.} Good afternoon. My name is Les Bernal.

597 I am the National Director for Stop Predatory Gambling, and
598 our mission is to end government sponsorship and promotion of
599 gambling. I appreciate the invitation to be here today.

600 As you consider Internet gambling, I ask you to imagine
601 yourself sitting down with your kids, your grandchildren,
602 your nieces and nephews, in front of a video game, and
603 encouraging them to put their money into it, to play it over
604 and over again, but you knew they could never win, yet you
605 kept encouraging them to do it.

606 You would never do that, but for the last 40 years in
607 American life, that is exactly what government has been doing
608 by sponsoring and promoting casinos and state lotteries. The
609 more citizens put their money into these games, the more
610 money they are going to lose. Government in this case is not
611 merely permitting private, consensual behavior. This is a
612 public policy. This is a government program that actively
613 sponsors gambling and promotes it by granting monopolies and

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614 awarding regulatory advantages to favored firms.

615 Government-sponsored gambling is a public policy that
616 has failed, and it has failed because, one, it has
617 transformed gambling from a private and local activity into
618 the public voice of American government such that ever-
619 increasing appeals to gamble and ever-expanding opportunities
620 to gamble now constitute the main ways that our government
621 communicates with us on a daily basis.

622 Government-sponsored gambling has also failed because it
623 has failed to deliver on its promises to fund education, to
624 lower taxes, to pay for needed public services. Just look at
625 the evidence from your own states.

626 But thirdly, most importantly of all, government-
627 sponsored gambling has failed because it has contributed to
628 patterns of inequality in America, increasing the divide in
629 our country between the haves and the have-nots. Now, there
630 are many forces currently contributing to the rise of
631 inequality such as globalization and technological change
632 that cannot be directly controlled by public policy. But
633 government-sponsored gambling is a public policy and it
634 exists only because policymakers want it to exist.

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635 So whether it is Internet gambling or other forms of
636 government-sponsored gambling, this is a public policy that
637 is based on cheating and exploiting citizens. The best
638 example is slot machines. The machine is mathematically
639 designed that you will lose your money the longer you play
640 it. From the get-go, the more you play, the more you lose,
641 and the big money in Internet gambling is in online slots
642 which make up the 65 to 80 percent of all gambling traffic.
643 And you should know that in the brick-and-mortar business, 75
644 percent of that money they make is coming from slots. It is
645 all about slot machines. And there are countless stories
646 about how government-sponsored slots are cheating and
647 exploiting citizens, but I am going to share just one. In
648 2004, New York Times reporter Gary Rivlin toured the
649 headquarters of International Gaming Technology, known as
650 IGT. They are America's biggest maker of electronic slot
651 machines, and today they design the leading platform for
652 Internet gaming.

653 Rivlin, the New York Times reporter, tells a story of
654 his visit to the IGT building. ``Most of the time most of
655 the people I met inside IGT told me they never played slot

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656 machines on their own time. Even one corporate PR staff
657 couldn't resist shaking her head in disbelief as she
658 described scenes of people lining up to play a new machine.
659 'It was unbelievable to me,' she told me. And when I asked
660 one IGT artist if he ever plays, he acted as if I insulted
661 him. 'Slots are for losers,' he spat and then coming to his
662 senses begged me to consider that an off-the-record comment
663 to a New York Times reporter.'

664 ``Slots are for losers,' he said, and many of these
665 losers are your constituents. In government's partnership
666 with gambling, there is one kind of loser who is the most
667 lucrative of all, the problem gambler. We refer these people
668 as the expendable Americans because everyone else is going to
669 benefit from the public dollars that come in from people's
670 gambling losses, but this money, we have read it, millions of
671 America is expendable, the addicts.

672 Gambling operators spend millions of dollars on public
673 relations and research to create the public impression they
674 are not exploiting citizens. Yet, despite all this money,
675 there are two questions they never answer, and maybe we will
676 get that at this hearing today. The first one is how much

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677 gambling revenue comes from problem gamblers? And the second
678 question is, what percentage of gambling revenue comes from
679 people who follow ``responsible gambling codes of conduct''?
680 We hear that a lot, responsible gambling. How much of the
681 revenues come from people who actually practice that?

682 So on the last page of my written testimony, there are
683 11 different studies, 11 different independent studies that
684 show 40 to 60 percent of their profits, gambling profits,
685 come from problem gamblers. That list was compiled as part
686 of a recent report entitled Why Casinos Matter written by the
687 Institute for American Values.

688 The second question, gamblers who manage to follow
689 responsible gambling codes of conduct, they contribute a mere
690 4 percent of gambling revenues.

691 So in closing, government's partnership with gambling
692 has failed. The evidence is all around us that it has been a
693 failed experiment, and sponsoring Internet gambling would be
694 the biggest failure of them all. Just like we wouldn't
695 encourage our own kids or grandchildren to put their money
696 into a video game they would never win, it is time our
697 government stopped cheating and exploiting our own citizens

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698 by sponsoring gambling.

699 [The prepared statement of Mr. Bernal follows:]

700 ***** INSERT D *****

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|

701 Mr. {Terry.} Thank you. Dr. Volberg? You are
702 recognized for 5 minutes.

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|

703 ^STATEMENT OF RACHEL VOLBERG

704 } Ms. {Volberg.} Thank you, Chairman Terry, Ranking
705 Member Schakowsky, and members of the subcommittee. I would
706 like to thank you for inviting me to testify this morning.
707 My remarks today will focus on the likelihood of an increase
708 in problem gambling in the wake of the introduction of online
709 gambling, in possible changes in those most vulnerable to
710 developing problems and on additional measures that could be
711 adopted to protect consumers and minimize harm.

712 The bill before you, H.R. 2666, provides for federal
713 oversight of states and tribes that would issue licenses for
714 online poker. H.R. 2666 includes several laudatory
715 requirements for addressing problem gambling and responsible
716 gambling including provision for a federally managed self-
717 exclusion program. H.R. 2666 requires states and tribes to
718 adopt practices that the Federal Government recommends to
719 protect consumers and amends the Public Health Service Act to
720 give SAMHSA authority to address gambling addiction.

721 While these are welcomed improvements over an earlier

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722 version, I remain concerned that while H.R. 2666 authorizes
723 SAMHSA to establish and implement programs for the
724 identification, prevention and treatment of problem gambling,
725 there is no specific mention of research or any provision to
726 assure that research on online gambling and its impacts will
727 be undertaken.

728 There is substantial research internationally showing
729 that problem gambling rates are three to four times higher
730 among online gamblers compared to those who gamble but not
731 online. It is quite likely that there will be an increase in
732 problem gambling prevalence in the United States as online
733 gambling participation increases and as inexperienced players
734 encounter difficulties controlling their involvement.

735 Although these new problem gamblers may eventually
736 overcome the difficulties related to their gambling, most of
737 the financial, psychological, social, work, school and legal
738 harms associated with problem gambling cannot be undone.

739 Problem gambling is not distributed evenly throughout
740 the population, and some groups are more vulnerable than
741 others. Generally speaking, males, adolescents, some racial
742 and ethnic groups and people with low income and education

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743 have the highest rates of problem gambling. However, in some
744 countries, rates of online gambling participation are higher
745 among women and older adults compared with more traditional
746 forms of gambling, and these new groups of gamblers may be
747 particularly vulnerable to developing problems going forward.

748 Understanding who is vulnerable has relevance to both
749 gambling policy and the development of effective
750 interventions. Beyond likely increases in prevalence, risk
751 profiles may also change, and it would be important to be
752 prepared to address the needs of new groups of problem
753 gamblers as these emerge in an online environment.

754 Constructing public policy and developing effective
755 interventions requires empirical evidence which in turn
756 requires research. Internationally, research serves an
757 increasingly critical role in informing gambling policy and
758 regulation. However, the roughly \$3 million that is spent
759 annually on gambling research in the United States means that
760 we know very little about how gambling in our country can be
761 most safely provided.

762 My own experience suggests that redressing this issue
763 requires enshrining both consumer protection and the role of

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764 research in legislation that permits new forms of gambling.

765 Most such legislation emphasizes revenue generation, and

766 mention is rarely made of consumer protections.

767 That is why I am particularly proud of the legislation

768 that was passed 2 years ago in my home State of

769 Massachusetts. The Expanded Gaming Act makes it clear that

770 the intention of the statute is to provide the greatest

771 possible economic benefits while reducing to the maximum the

772 potentially negative consequences of introducing casino

773 gambling to the Commonwealth. The effort to reduce negative

774 consequences includes establishment of a public health trust

775 fund from which 5 percent of the tax revenues generated

776 annually by the three new casinos will be distributed for

777 problem gambling research, prevention and treatment.

778 Thank you for the opportunity to testify, and I look

779 forward to answering your questions.

780 [The prepared statement of Ms. Volberg follows:]

781 ***** INSERT E *****

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|

782 Mr. {Terry.} Well, thank you, Dr. Volberg. Mr. Eggert,
783 you are now recognized for your 5 minutes.

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|

784 ^STATEMENT OF KURT EGGERT

785 } Mr. {Eggert.} Thank you, Mr. Chairman, and madam
786 ranking member and members of the committee. I appreciate
787 you inviting me back. I was here 2 years ago at a similar--
788 testified similarly. I talk about consumer protection and
789 gambling, and gambling is a consumer industry which means
790 that consumer protection should be hard-wired into every
791 aspect of its regulation. And so I would like to talk about
792 what I consider three very important aspects of consumer
793 protection that should be considered in legalizing Internet
794 gambling.

795 Number one is that gamblers should always be provided
796 with all of the information that they need in order to make
797 good decisions about whether, when, where and how to gamble.
798 They should be given the information they need to be good
799 shoppers. It used to be that we looked down on gamblers and
800 treated them as like lesser, you know, almost evil people.
801 And now they are just consumers. It is like buying a car,
802 and if you are buying a car, you get to have information

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803 about gas mileage. In the same way, if you are buying
804 gambling, you should get all the information you need.

805 A crucial piece of information for slot machines is the
806 hold percentage. Every slot machine is designed to have a
807 specific hold percentage which is the amount that the casino
808 on average keeps of the bet, returning the rest in winnings.
809 Why don't we get to know that every time we use a slot
810 machine? That is basic information that every consumer
811 should have any time they play a slot machine, either on the
812 Internet or in land-based casinos.

813 It is especially important for Internet slots because
814 you are not in a casino. You haven't picked the slot machine
815 based on the staff or the ambiance or the floor shows. You
816 are just sitting in front of your computer, and so if you are
817 looking to decide where to play, the hold percentage of the
818 slot machine should be paramount. And so any Internet slot
819 machine should tell you as you shop and as you gamble what
820 hold percentage you are facing.

821 The second rule of consumer protection Internet gambling
822 concerns bots, poker bots. What these are are consumer
823 software programs designed to play poker, and I think it is

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824 important that players shouldn't lose money to poker bots
825 that can play better than they can, unless they want to. If
826 you choose to say I want to go against the best bot in the
827 world, then more power to you. But you should get to know
828 that that is what you are doing.

829 Now, there was a poker bot ring in Sweden in the last
830 year that, as far as I can tell from the news, won like a
831 million dollars or more in just a couple months. If bots are
832 strong enough and good enough to do that, they are a
833 significant threat and we have to address that problem. Bot-
834 makers are getting better all the time. There is a bot
835 playing Limit Texas Hold'em that, according to the New York
836 Times, can beat most people in the world. There is a new
837 company that says they designed a neural network bot that can
838 play No Limit Texas Hold'em as well as most people.

839 And so as computers get better, as neural networks get
840 better, making bots is going to get easier and easier. And
841 the day will come where some kid in their garage with a high-
842 powered computer can make a bot that can defeat most human
843 players. It will be a challenge to stop that, and if we
844 can't stop that, we have to give players some defense so that

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845 they know if they are playing a bot or if they are playing
846 somebody who plays abnormally well like a bot might, so what
847 I would recommend is we would have ratings for poker players
848 so that you can tell when you are facing a much, much better
849 player that may well be a bot.

850 A third important aspect of consumer protection is
851 giving players the power to self-exclude and to limit their
852 play, either by the day, week or month by how long they play
853 or how much they bet and give them this kind of protection so
854 that they can control their betting. It is a consumer
855 industry. Consumers should be empowered to make good
856 decisions. And so the industry should give them the tools
857 they need to make good decisions.

858 In my testimony I talk a lot about what the different
859 states have done and what Congressman Barton's bill has done,
860 and I would be happy to answer questions about that further.
861 But again, I thank you for allowing me to testify.

862 [The prepared statement of Mr. Eggert follows:]

863 ***** INSERT F *****

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|

864 Mr. {Terry.} Well, thank you for your return
865 performance, sticking with kind of a show theme. Thank you
866 all for your testimony, and now it is time to begin our
867 questions. And my first one, because you are a law
868 professor, I want to ask you this question--

869 Mr. {Eggert.} Guilty as charged.

870 Mr. {Terry.} This is a DOJ opinion about the Wire Act.
871 People tell me it is the law. Can you work us through as
872 quickly as you can as a law professor, is that the law?

873 Mr. {Eggert.} Well, the law is what the courts and the
874 people enforcing the law say it is to some extent. I think
875 that is--

876 Mr. {Terry.} Good point.

877 Mr. {Eggert.} I think it is a valid interpretation of
878 the law. The DOJ's position I think is--you can make a
879 strong argument that it is the correct one. And so it isn't
880 the law itself but it is not a horrible misinterpretation of
881 the law.

882 Mr. {Terry.} What happens if New Jersey or Nevada or
883 Texas goes forward and there is a new administration next

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884 year or I mean in a couple years or there will be and the DOJ
885 goes back to the previous four administrations'
886 interpretations of the Wire Act?

887 Mr. {Eggert.} Then you would have an interesting battle
888 between the states, which I think at that point would be
889 loath to give up their, you know, flourishing Internet
890 industry, and they and the DOJ would have to fight it out in
891 the courts. And ultimately the courts would determine who
892 was correct.

893 Mr. {Terry.} And that would be a ripe one for the
894 Supreme Court to probably take up on a fast track.

895 Mr. {Eggert.} I would think so.

896 Mr. {Terry.} Yeah, legally, it is just very
897 interesting, and as a former lawyer, those are the type of
898 issues that kind of get my attention but also as a father
899 they get my attention, and probably starting at about 8, my
900 kids became pretty savvy shoppers with my credit card online.
901 In fact, it is to the point where I just say you go to the
902 Web site and do it yourself.

903 Ms. {Schakowsky.} Add to cart.

904 Mr. {Terry.} Add to cart. Yes, on Dad's credit card

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905 which they think is theirs. And in fact, they at least for
906 their lacrosse equipment, does that all the time. My card is
907 already in there. And so they go get their new set of
908 lacrosse gloves or pads or whatever, and then the next day I
909 open up my email and see the receipt and call them and say
910 what the heck did you do?

911 But Mr. Abboud and then to Mr. Pappas as well, how do we
912 prevent the children who, as Mr. Abboud said and when you
913 said that it hit right at home, how do we really know if a
914 minor is playing, if they are using Dad's credit card or
915 Mom's and how do we prevent that? Mr. Abboud first.

916 Mr. {Abboud.} Don't legalize it and--

917 Mr. {Terry.} Okay. Mr. Pappas?

918 Mr. {Abboud.} --shut down the illegal operators that
919 are here that are operating today. You can get into a long,
920 technological discussion about whether you can or can't
921 prevent minors from getting involved, and I think some people
922 believe you can, some people believe you can't. I have seen
923 the technological demonstrations. I think they are a barrier
924 to market. I think by the time someone has to go through all
925 of that, they will find--if you don't shut down the illegal

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926 sites, that is where they will end up.

927 But also when you speak to children I think with respect
928 to Congressman Barton whom I have tremendous respect for and
929 for Mr. Pappas to my left, I think their intentions about
930 poker are very clear. But I don't think that is the intent
931 of the legalization of online gaming. I think that the
932 unclear nature of what the Wire Act means was hopefully
933 Congress would take action. And I think that using the poker
934 analogy, for the industry to go state by state, particularly
935 in Nevada, to try to scare Congress into acting, was probably
936 the worst bluff in the history of poker.

937 In Nevada, almost shamefully, they rushed it through the
938 legislature with an emergency declaration, passed unanimously
939 by both houses. We need to pass this poker bill now. We
940 need to set the precedent. It is just poker. It is just
941 poker. It is just poker. Nine months later it turns out it
942 wasn't just poker. They have the ability without the act of
943 the legislature to do full online gaming because it wasn't
944 sustainable. Poker is not a sustainable market. It is fine
945 if people want to play poker online. If it is safe they can
946 probably do it. But it is about this. It is about slot

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947 machines geared toward children, Marvel comics, Iron Man,
948 kiddie slots. You know, this stuff is not what we are about.
949 That is where the industry is going to go, and unless you--

950 Mr. {Terry.} All right. Let me--

951 Mr. {Abboud.} --shut down those illegal sites and
952 unless we restore the Wire Act--

953 Mr. {Terry.} I want to save some time--

954 Mr. {Abboud.} --we keep--

955 Mr. {Terry.} --for Mr. Pappas on that. And by the way,
956 when I got on one of my iPads, they did download an app for
957 slots. I deleted it, but they weren't gambling but it was
958 just a regular app. Mr. Pappas.

959 Mr. {Pappas.} I appreciate the opportunity to respond,
960 and I think it is important that we recognize that age
961 verification technology exists, not only in Internet gaming
962 but in all forms of e-commerce that are age restricted. When
963 you talked about your children buying lacrosse products,
964 those aren't age-restricted products. Therefore, there
965 wasn't an age-verification system in place for them to make
966 that purchase. If a person wants to make a deposit on an
967 Internet gaming Web site, they would have to go through

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968 tremendous and rigorous levels in order to be able to make
969 that deposit, proving that they are not only who they are,
970 saying who they are, this is Jon Pappas depositing, but that
971 Jon Pappas is actually 21 years of age.

972 And as I mentioned in my testimony, underage access in
973 Nevada where this has been going on since April is zero.
974 There has not been one reported incident of underage access
975 in the State of Nevada and further--

976 Mr. {Terry.} How do you know, though?

977 Mr. {Pappas.} --looking at the European--

978 Mr. {Terry.} That is one of the questions I have is how
979 do you know, though?

980 Mr. {Pappas.} Because regulators actively seek to try
981 to get on the sites themselves, and if there was a parent or
982 a child was able to access a site and I would suspect if they
983 lost money on that site, the parent would have to report that
984 to the authorities, to the regulators as well as to the
985 credit agencies, and they would either get a refund for the
986 money. None of that has been recorded. And if you look at
987 the European experience which has been going on for a decade,
988 in 2011, the European Children's Charities Coalition on

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989 Internet Safety notified the European Commission that since
990 2007 they have not been made aware of a single instance where
991 a child has beaten the system and gotten online to gamble.

992 The fact is age verification is here. It is working
993 very effectively today. I welcome any way that we can
994 improve it to ensure that children don't have access to these
995 sites because I think that is extremely important. But I
996 will say that it has been working very effectively already.

997 Mr. {Terry.} Thank you. My time is up. Now the
998 ranking member of the committee, you are recognized for 5
999 minutes for your questions.

1000 Ms. {Schakowsky.} Well, first of all, let me
1001 congratulate the panel, every one of you. I found myself
1002 nodding as the arguments are compelling.

1003 But Mr. Abboud, you gave very passionate testimony I
1004 think, but I know that--I just want to mention this that the
1005 Venetian Casino is owned and operated by Sands and Mr.
1006 Sheldon Adelson, and there is actually promotion of mobile
1007 casino wagering. A direct quote from the Venetian, ``Is
1008 there anything you can't do on a smart phone or tablet
1009 nowadays? Mobile casino gaming is available to you on

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1010 property during your stay, and you can even play from your
1011 room.'" That is one quote, and the other is they also
1012 promote on their Web site a mobile sports betting app for
1013 smart phones, tablets and PCs, and they tout that the app
1014 ``allows you to wager anywhere in Nevada'' which is not a far
1015 cry from anywhere in the United States.

1016 So I just want to say that, you know, there is a little-
1017 -feels to me a little hypocritical. But having said that, I
1018 wanted to ask about, Mr. Eggert, the consumer protections.
1019 Do you feel that it is possible to make sure that the
1020 consumer protections are built into legislation sufficiently
1021 to protect people from the potential abuses of online
1022 gambling?

1023 Mr. {Eggert.} I think that there are good consumer
1024 protection devices that can be built in. I am not sure if
1025 you can ever have a perfect system. I think the problem of
1026 poker bots is going to be a difficult one, and I don't know
1027 that there is a good consumer protection solution to bots.
1028 But I think for slot machines, we can certainly have better
1029 protection than we have in almost any place in the country,
1030 specifically better information about hold percentages, and I

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1031 think you can also design good methods for people to control
1032 their gambling that should be hard-wired into it.

1033 So we can do a lot better, but I don't think you can
1034 have a perfect system.

1035 Ms. {Schakowsky.} I also wanted to ask about again--was
1036 it Mr. Abboud there talking about its public policy. Were
1037 you the one that was talking about how now we have turned
1038 gambling into--no, that was you, Mr.--well, here is the
1039 thing. We are sold--I was in the state legislature. We are
1040 often sold the lottery and other kinds of gambling revenue as
1041 helping our schools and in Illinois supposedly for education.
1042 I know that for a time it really displaced money that would
1043 ordinarily go for the general revenue funds to education. I
1044 think that was corrected now in Illinois. But what is the
1045 history of that and do these revenues, which are significant,
1046 actually help us to fund the needed priorities for our
1047 governments?

1048 Mr. {Bernal.} Sure. So without question the answer to
1049 that is it has failed to produce the revenues that they have
1050 promised. No one can name a state in this country, whether
1051 it is from Georgia to Washington State, where people have

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1052 said, you know, in Georgia they are going to fund
1053 scholarships through their lottery, and then in the end what
1054 you see happening is low-income people losing money to pay
1055 for middle-class kids to go to college. And now that revenue
1056 hasn't sustained itself. So now they are going to turn to
1057 slot machines in Georgia.

1058 Ms. {Schakowsky.} So have there actually been studies
1059 that would show us?

1060 Mr. {Bernal.} Oh, yeah.

1061 Ms. {Schakowsky.} Do you have studies--

1062 Mr. {Bernal.} The Rockefeller Institute in Albany.
1063 SUNY University up in Albany has done a great study, more so
1064 than any other entity out there, has done a great breakdown
1065 of how--the fact that gambling is not a sustainable revenue
1066 source from a governmental standpoint.

1067 Ms. {Schakowsky.} Okay. And Dr. Volberg, Mr. Bernal
1068 also cited some studies about the amount of revenue that
1069 comes from problem gamblers. Is there a way, do you think,
1070 that would actually work that could address that problem?

1071 Ms. {Volberg.} Yeah, the--

1072 Mr. {Terry.} Microphone.

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1073 Ms. {Volberg.} Oh, sorry. The issue of the proportion
1074 of revenues that come from problem gamblers has been a
1075 contentious one, and Mr. Bernal's testimony lists quite a
1076 number of different studies that have been done. But the
1077 challenge is that the ratios are different in different
1078 jurisdictions. So the industry's approach to trying to
1079 address the issue of how much they depend on problem gamblers
1080 has been to try to expand the pool of people who gamble
1081 occasionally so that you have less people who are--more
1082 people who are contributing to the pot, if you will. But I
1083 think in the end, the industry is going to be dependent to a
1084 significant degree on people who spent more than many of us
1085 think they should on their gambling involvement.

1086 Ms. {Schakowsky.} If I could make just one more
1087 comment, in Illinois the lottery manager was just directed to
1088 expand the promotion beyond low-income people to people who
1089 have more revenue. Thank you.

1090 Mr. {Terry.} The chair recognizes the Full Committee
1091 Vice Chair, Ms. Blackburn.

1092 Mrs. {Blackburn.} Thank you, Mr. Chairman, and as a
1093 point I think just kind of a reality touch point to this

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1094 hearing, Mr. Barton, who we all dearly love, got off on a
1095 little bit of a tangent when he did his opening statement
1096 this morning and said he thinks that God is in favor of his
1097 online poker bill because his flight got in early and, you
1098 know, he thinks he had angel wings to help get him here.

1099 But I would encourage the gentleman from Texas to
1100 remember he only need look at the number of his bill, 2666,
1101 to remember that the devil is in the details, so just as a
1102 point of careful guidance and instruction.

1103 Mr. {Barton.} At least you were listening to me.

1104 Mrs. {Blackburn.} Mr. Barton, I am always listening.
1105 We women do that very well. Woo, yeah. Okay. Back to the
1106 questioning. Aren't you all glad you came? We are glad you
1107 came because I don't know if it is Mr. Eggert, the botnet
1108 that is out there spamming our Twitter accounts or what, but
1109 indeed they are very active and we fully realize that.

1110 Some of you may be aware that Congressman Welch and I
1111 are co-chairs of a privacy working group, and Ms. Schakowsky
1112 is a part of this. And I have to tell you, it is a
1113 bipartisan group. It is a part of this committee. We are
1114 enjoying the education that we are getting on privacy issues

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1115 and concerns from our constituents, and we are learning a
1116 lot. And one of the things that we have really taken note of
1117 is how incredibly complex the expectations of privacy are
1118 from constituents and from different participants in the
1119 industry. And we are seeking to work through this in our
1120 working group sessions.

1121 So Mr. Freeman and Mr. Pappas, I want to come to you,
1122 and I just very simply--and Mr. Freeman, let us start with
1123 you. What are the expectations a consumer will have of
1124 privacy for their participation and their information if they
1125 log onto one of the sites? First you, and Mr. Pappas, if you
1126 will follow him?

1127 Mr. {Freeman.} Thank you, Congresswoman. I think many
1128 were expecting Andy and I to have the fireworks today, so I
1129 am thrilled to see you and Mr. Barton taking the stage. When
1130 it comes to privacy, that is obviously an area that we value
1131 significantly. Consumer protection, a topic that has been a
1132 primary issue here today, should be an issue, and it is an
1133 issue we believe in very passionately. The only way to
1134 address privacy, the only way to address consumer protection,
1135 is through effective regulation. The black market is the one

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1136 area where these issues won't be addressed.

1137 With online gaming, all of this is voluntary. People
1138 are going on, they are providing the information themselves.
1139 They are choosing to enter that information in there, and
1140 through the regulatory bodies, the protection of that
1141 information is assured. That is what makes this situation
1142 unique in that sense, that one, people are choosing to do
1143 this in a voluntary manner, and two, the regulators are
1144 assuring that this information is protected.

1145 Mrs. {Blackburn.} Okay.

1146 Mr. {Pappas.} First, let me start by saying that the
1147 messages you have been receiving via Twitter and Facebook I
1148 assure you are from real people who live and reside in your
1149 district and care passionately about their right to play
1150 online. Secondly, the issues of privacy and data security
1151 for Internet gaming are no different than they would be for
1152 any other e-commerce company, be it Amazon or Facebook. We
1153 believe that licensed entities would have to require all of
1154 the same privacy and data security laws that every other
1155 American company must apply. You know, today we have a
1156 situation where American consumers, except for those in the

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1157 three states where it is authorized, are playing on offshore
1158 sites and they are not subject to any U.S. law or regulation.
1159 So we are asking for a federal law or state laws that ensure
1160 that the players--the sites are authorized, regulated and
1161 that those sites are adhering to all the strong data privacy
1162 laws that this Congress or states come up with.

1163 Mrs. {Blackburn.} Okay, thank you. Mr. Chairman, I
1164 have got two other questions I am going to submit because of
1165 time. One pertains to Mr. Abboud's testimony and the
1166 November 13 FBI Crimes Division letter, and then the other
1167 pertains to the 2009 British hacker, Ashley Mitchell, when he
1168 was posing as an administrator for Zynga poker games. With
1169 that I yield back.

1170 Mr. {Terry.} Thank you. Now recognized for 5 minutes,
1171 the gentleman from Vermont.

1172 Mr. {Welch.} Thank you very much. Folks are going to
1173 gamble. They like to do it, and any way they can, they will.
1174 And there obviously are legitimate reasons and then there are
1175 some folks that get overwhelmed by it just like with any
1176 other kind of activity. So anything that we do has to
1177 include some protections. You have been trying to do that in

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1178 Las Vegas as I understand it.

1179 But I want to direct these questions to Professor

1180 Volberg and Professor Eggert. How do we ensure that

1181 minimizing the harm is baked in as a priority from the start

1182 and not simply laid on afterwards, after the fact, and the

1183 harm is done? I mean, if we get at it from the beginning

1184 with some sensible plan, that has in my view more prospect

1185 for being successful in helping more people. If you could--

1186 Mr. {Eggert.} I think that the way you do that is you

1187 plan it before you legalize the Internet gambling. It should

1188 be something that should be written into the regulations from

1189 day one. I think there is a lot of room. I am with Dr.

1190 Volberg on this, a lot of research to see what helps with

1191 problem gamblers. But as far as consumer protection, it is

1192 pretty straightforward what information people need and want

1193 in order to gamble, and they should be provided that.

1194 One of my concerns about the state-by-state approach is

1195 that I am worried that it will be a race to the bottom with

1196 states with weak protections will win out over states with

1197 stronger protections, and any federal program has to take

1198 that into account and prevent it from happening.

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1199 Mr. {Welch.} Okay. Dr. Volberg?

1200 Ms. {Volberg.} I guess I would echo Professor Eggert's
1201 remarks. I think you do have to start, even before the
1202 regulations, you have to bake the language into the
1203 legislation that says this is not just about raising revenues
1204 or, you know, paying for other programs. This is about
1205 consumer protection and making sure that what we put in place
1206 is going to work.

1207 Mr. {Welch.} Okay. Thank you. Mr. Freeman and Mr.
1208 Pappas, you are advocates for this. What are your views on
1209 having as part of any authorization, A, consumer protections,
1210 and B, some help to problem gamblers. We can start with you,
1211 Mr. Freeman. Go ahead.

1212 Mr. {Freeman.} It is not often an industry comes before
1213 you asking for regulation. That is what the gaming industry
1214 is doing today, asking for some very specific points around
1215 age verification, around consumer protection, and around
1216 duties of responsible gaming. The way to do that is
1217 obviously through regulation.

1218 To the previous point that was made, the way our
1219 industry behaves, being regulated in Nevada and Mississippi

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1220 and countless states around the country, we are actually held
1221 to the highest standard because any state in which we do
1222 business can punish us for what we do in another market. So
1223 we actually have a race to the top in that sense, and it has
1224 worked for an extended period of time for our industry.

1225 Mr. {Welch.} All right. Mr. Pappas?

1226 Mr. {Pappas.} Most definitely. I mean, I represent a
1227 consumer-driven organization, so consumer protection is
1228 paramount to our concern, and that is why we believe a
1229 regulated market is going to far better protect consumers
1230 than a prohibition or even the status quo.

1231 So we believe that regulation, that lawmakers should
1232 require that regulators implement best-of-breed technologies
1233 and that it gives the companies the flexibility to innovate
1234 and be all of the potential problems that have been raised,
1235 and I think that that is the best way to proceed, with
1236 lawmakers setting the standards, regulators enforcing those
1237 standards and companies innovating and making them even
1238 better.

1239 Mr. {Welch.} Okay. And Mr. Abboud, you raised some
1240 legitimate concerns I think that are on the minds, obviously,

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1241 of lawmakers in the states and also here. I mean, is it your
1242 view that there really are no protections that could be part
1243 of any authorizing legislation that would get the job done so
1244 it is better not to do it at all?

1245 Mr. {Abboud.} Well, as I said, when the Wire Act was
1246 overturned, that is not the day that the Internet became
1247 safe. And it is an issue that we study. It is an issue that
1248 we study every day. But we don't feel that the technology
1249 there is to safeguard consumers to the extent--

1250 Mr. {Welch.} Well, let me ask this. If the technology
1251 were there, then would you have a different point of view?

1252 Mr. {Abboud.} I don't think this is a market that we
1253 would ever go into. We just think that turning every device
1254 into a casino takes gambling too far.

1255 Mr. {Welch.} So what would be the proper limit, as you
1256 see it?

1257 Mr. {Abboud.} None. We talked about the European
1258 model. We have something in the United States that they
1259 don't have, billions and billions of dollars of brick-and-
1260 mortar casinos that generate jobs, that generate a lot of
1261 livelihoods for a lot of people across the country, based on

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1262 shows, conventions, trade shows, all those types of things.
1263 Europe doesn't have that. Simply because Europe stepped
1264 forward and pandered to the lowest common denominator is not
1265 something our industry should follow.

1266 Mr. {Welch.} Okay. Thank you. I yield back.

1267 Mr. {Terry.} Thank you, Mr. Welch. I now recognize the
1268 vice chairman of the subcommittee, Mr. Lance, for 5 minutes.

1269 Mr. {Lance.} Thank you very much, Mr. Chairman, and I
1270 think this is a very important panel, and I respect everyone
1271 who is on the panel. I hope to participate in the hearing
1272 for its full length. I do have a Health Subcommittee as
1273 well, but I certainly am deeply interested in the views of
1274 everyone on the panel.

1275 To Mr. Pappas, you have stated in your testimony that
1276 the bill does not force any state to participate in an
1277 intrastate Internet poker system, and equally as important it
1278 allows states to implement their own online gaming
1279 regulations. As you are aware, New Jersey has begun Internet
1280 gambling. Would this legislation in your view in any way
1281 preempt what New Jersey is currently doing?

1282 Mr. {Pappas.} Mr. Barton's bill, H.R. 2666, would not

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1283 in any way restrict the ability of Nevada or any other state
1284 to provide--

1285 Mr. {Terry.} I think your microphone is off.

1286 Mr. {Pappas.} Oh. You are right. I am sorry. Mr.
1287 Barton's bill would not restrict in any way the ability of
1288 New Jersey or any other state to provide house-banked casino
1289 games, lottery tickets or any other games other than poker.
1290 However, with poker it would require that the state would
1291 have to become an authorized federal body, authorized by the
1292 Federal Government to continue to do that. Given that New
1293 Jersey is known for being one of the most robust gaming
1294 regulations in the country--

1295 Mr. {Lance.} And heavily regulated.

1296 Mr. {Pappas.} And heavily regulated, that they would
1297 easily meet if not exceed whatever standards the Federal
1298 Government sets aside.

1299 Mr. {Lance.} Thank you. And then to Mr. Freeman and
1300 Mr. Abboud, regarding the DOJ opinion as it concerns the Wire
1301 Act, is it the view of both of you--I know you reach a
1302 different conclusion ultimately--but is it the view of both
1303 of you that there needs to be statutory legislation in this

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1304 regard as opposed merely to an opinion from the current DOJ?

1305 First Mr. Freeman and then Mr. Abboud.

1306 Mr. {Freeman.} It is our opinion that the online gaming
1307 environment would be better with Congress' putting in place
1308 some minimum thresholds in the areas that I discussed of age
1309 verification, of geolocation and others. Without that,
1310 states are moving forward. They are putting in place as your
1311 state is doing very comprehensive regulations. I think they
1312 are showing an ability to regulate this market effectively.

1313 Mr. {Lance.} Thank you. Mr. Abboud?

1314 Mr. {Abboud.} Well, as I stated previously, we think
1315 that the Wire Act being overturned can be overturned at any
1316 moment by any administration. The states that are going
1317 forward are doing so with great risk as are my follow
1318 industry members are going forward with great risk. So that
1319 is why I am here today asking for the Wire Act to be restored
1320 so that we can take away that ambiguity.

1321 Mr. {Lance.} And you would restore it in such a way
1322 that this would not be permitted?

1323 Mr. {Abboud.} Correct.

1324 Mr. {Lance.} And Mr. Freeman, you would modify it to

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1325 permit it with certain federal regulations?

1326 Mr. {Freeman.} Again, putting in place those minimum
1327 standards. In the absence of that, or even with the changes
1328 that are recommended, people are going to continue to game.
1329 As we mentioned before, in 2012 nearly \$3 billion was spent.
1330 Fixing the Wire Act does nothing to change the desire that
1331 has been referenced.

1332 Mr. {Lance.} I tend to agree with that, and certainly I
1333 believe in New Jersey we have tried to be responsible. And
1334 let me repeat that I believe that New Jersey regulation is
1335 strict, and we have had a generation of experience in this
1336 regard. But I certainly respect both of your points of view
1337 on this issue.

1338 Mr. Pappas, regarding Congressman Barton's legislation,
1339 would it in any way prevent New Jersey from offering games of
1340 chance such as blackjack or slots?

1341 Mr. {Pappas.} No, sir, it would not restrict the
1342 ability for any house-banked games. Poker would be the only
1343 place where New Jersey would have to consult with the federal
1344 law.

1345 Mr. {Lance.} And from your perspective, that

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1346 consultation would be relatively easy and seamless and it is
1347 likely that New Jersey could continue to do what it is
1348 currently doing?

1349 Mr. {Pappas.} That would be our hope. As an
1350 organization, we fought very hard for the New Jersey law and
1351 we support that law. We also support Mr. Barton's law, and
1352 we hope that they can work together.

1353 Mr. {Lance.} Thank you. Let me say that from my
1354 perspective, the governor of New Jersey, my close friend
1355 Governor Christie, and the legislature of New Jersey and
1356 those who administer our laws in New Jersey try to work in a
1357 comprehensive fashion and we try to work with all of those
1358 who are interested in this issue including all of those on
1359 this panel, and I want to thank the panel. And Mr. Abboud,
1360 you certainly represent a very great corporation in this
1361 country, Sands, and I deeply respect that. Thank you, Mr.
1362 Chairman.

1363 Mr. {Terry.} Thank you, Mr. Lance. And now the
1364 Chairman Emeritus for the Full Committee, Mr. Joe Barton.
1365 You are recognized.

1366 Mr. {Barton.} Well, thank you, Mr. Chairman. Let me

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1367 start out. I was being somewhat flippant when I talked about
1368 God being for this bill. Obviously, God doesn't care a fig
1369 one way or the other about our bill, but I will say as a
1370 practicing Christian that God does give men and women free
1371 will, and I think we ought to have a law that reflects free
1372 will in this issue.

1373 I did not say in my opening statement but we do have
1374 some representatives of the Indian casinos and the Indian
1375 Gaming Association in the room. And they were invited to
1376 present testimony and to be a part of the panel. And it is a
1377 voluntary basis. So they were invited, and they chose not
1378 to. But obviously Indian gaming is a huge part of this issue
1379 since almost as much and perhaps more people play in Indian
1380 casinos than in non-Indian casinos.

1381 Mr. Freeman, in your testimony you gave the list of
1382 things that you said federal legislation should include or
1383 accomplish. In listening to you I believe that my bill, H.R.
1384 2666, hits all those points. Do you agree with that?

1385 Mr. {Freeman.} Mr. Barton, your bill certainly hits
1386 those points and others. There are points we would certainly
1387 like to see added to that, and I am happy to discuss those

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1388 with you.

1389 Mr. {Barton.} Okay. And Mr. Abboud, I am glad that you
1390 are here and you represent the Sands Corporation. The first
1391 hotel casino that I stayed in as a young man when I went to
1392 Las Vegas for the first time was the old Sands, and just last
1393 year I held a political fundraising event at the Venetian
1394 which I believe is a property of the current Sands
1395 Corporation. And so I have great respect for the company
1396 that you represent.

1397 Ms. Schakowsky pointed out in her questioning some
1398 advertising material. I would like to put that up on the
1399 board, up on the screen, that Cantor Gaming, which is a
1400 vendor of the Sands and does the Venetian, has on that
1401 particular slide right there.

1402 [Slide]

1403 Mr. {Barton.} ``Is there anything you can't do on a
1404 smart phone or tablet nowadays. Mobile casino gaming is
1405 available to you on property during your stay. You can even
1406 play from your room.'' And then the next one, which is again
1407 at the Venetian. It talks about their sports book, that you
1408 can wager from anywhere in Nevada. Now, I want to be fair on

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1409 the first slide about the gaming. It does not allow you to
1410 play poker from your room for some reason. You can do slots
1411 or roulette or Wheel of Fortune or whatever. I would like to
1412 hear your comments on this because what you are advertising
1413 here, as Ms. Schakowsky pointed out, is the same thing that
1414 we are talking about in my bill for poker only. It is just a
1415 matter of how wide the geography is or the wireless
1416 connection.

1417 Mr. {Abboud.} Well, that is why we are here today, and
1418 I appreciate the opportunity to respond to what Congressman
1419 Schakowsky said because it is all about human interaction,
1420 right? Congressman, all of you, have the right to eyeball me
1421 and determine whether or not I am telling the truth, and you
1422 can hold me accountable. It doesn't happen with a lot of
1423 online gaming opportunities, does it?

1424 And it is also about the location. That is a very
1425 controlled environment in a regulated state, in a regulated
1426 casino, that can only be done within the four walls of our
1427 building. You have to go up to Congress Terry, if he works
1428 at the cage, to fill out the application, have an eyeball-to-
1429 eyeball experience, make sure you aren't on the self-

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1430 exclusion list, make sure that we don't think you have had
1431 too much to drink, a whole series--
1432 Mr. {Barton.} But you are--I don't want you to
1433 filibuster the last 30 seconds. What your company is
1434 advertising here, except for the geography, is the same thing
1435 that my bill does, and my bill is poker only. Poker only.
1436 Now, I have never met a professional roulette player. I have
1437 never met a professional slots player. But there are lots of
1438 professional poker players because it is a game of skill.
1439 Now, if we are the final table here, Mr. Long, myself, Mr.
1440 Harper, Mr. Terry, Ms. Schakowsky, I have got a high
1441 probability I can tell you which one of us comes out the
1442 winner at the final table because I have played with Billy
1443 Long, and I think he probably beats me. Now, I have never
1444 played with Jan, so I don't know. She may be a sleeper. But
1445 poker is a game of skill, and all my bill does is allow free
1446 will at the state level if the governor allows it for people
1447 who want to to play poker online. And I again appreciate Mr.
1448 Terry for his holding this hearing, and I am going to stay
1449 and hear the other questions. And maybe, if given an
1450 opportunity, I would like a second round for myself, if that

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1451 is--

1452 Mr. {Terry.} The gentlelady from Illinois and I will
1453 discuss that. Mr. Harper, you are recognized for 5 minutes.

1454 Mr. {Harper.} Thank you, Mr. Chairman, and I thank each
1455 of you for being here on what is a very important topic and
1456 one that has created a little bit of a division, okay? Quite
1457 a divide. But you know, we have of course legal gambling in
1458 the State of Mississippi. It is a big industry, on average
1459 about \$2.2 billion worth of revenue a year or spent on
1460 gambling in Mississippi versus maybe, what, \$10 billion a
1461 year on average in Nevada perhaps? But it is a tourism-
1462 driven business. The brick-and-mortar issues very important
1463 there, and it is a destination so that what you see is not
1464 just a casino but you see restaurants, golf courses, water
1465 parks, I mean other things that are there that draw that.
1466 This brings none of that. And my concern, I guess my
1467 overriding concern I have is if we address this issue and we
1468 do what Mr. Barton proposes or what others may propose, is
1469 how are we doing anything to address what is the underlying
1470 problem or the background problem of offshore and out-of-
1471 country illegal sites? We are not addressing that. And

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1472 certainly if we restore the Wire Act and give it some teeth,
1473 perhaps we can do it. But it would seem to me that this
1474 bill, the problem that I have, one of the problems I have
1475 with it is if we allow states to--if we make it legal and
1476 then states can opt out, it would seem to me if you were
1477 going to go that route, the better thing would be to make it
1478 illegal and let the state legislatures opt in, at least might
1479 give some better safeguards, not that I am proposing that,
1480 but I am just saying versus what we are seeing here.

1481 So my concern I guess is, and I will start with you if I
1482 can, Mr. Abboud, what in your view would it take for the
1483 United States to be able to efficiently and effectively
1484 regulate Internet gambling and control the offshore illegal
1485 sites? Do we have the ability to do that if we were to have
1486 the will to do that?

1487 Mr. {Abboud.} Thank you, Congressman. I think that we
1488 do. Government is doing with online pharmacies today. They
1489 shut down 1,200 illegal online pharmacies. To say that we
1490 can't do it is not a plausible answer. And I think when it
1491 comes to the safety of the industry and the integrity of it,
1492 it is the FBI that has testified before Congress and sent

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1493 letters saying that there is no guarantee that you can
1494 prevent youth from gambling.

1495 And with all due respect to Congressman Barton, I am a
1496 big fan of his. When you all are playing poker together
1497 around a table, you can't show each other your cards. You
1498 can't collude against each other because it is human
1499 interaction. I don't know what happens online. No one has
1500 proven to me that you can't collude against each other.

1501 This is in its infancy, in its infancy. And it is a
1502 rush to market, as I said before, because the Wire Act was
1503 overturned. That is not the day the Internet became safe.
1504 It is not a safe place for a lot of different transactions.
1505 And I said before, this is a play to the youth of America,
1506 and this is going to be our Joe Camel moment. And if we do
1507 not behave responsibly and protect ourselves against what
1508 could prey on youth and other people, it could very well be
1509 the demise of our industry. And to go forward would be
1510 irresponsible.

1511 Mr. {Harper.} Wouldn't it seem that the best place to
1512 start then is let us go ahead and do everything we can within
1513 our power from a technological standpoint to shut down the

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1514 illegal sites?

1515 Mr. {Abboud.} Absolutely. And there has not been
1516 enough discussion but that I think we are--everyone on this
1517 panel is in agreement to shut down the illegal sites. And it
1518 is essential. If that is all that came out of this whole
1519 process, we would all be a lot better off. But we haven't
1520 done anything, and the industry, including my company and
1521 everyone on this panel and including the no-casino people,
1522 have not done enough to push for that effort.

1523 Mr. {Harper.} And if you don't address that, of course
1524 if you make it legal across the board and there is going to
1525 be additional regulatory burden and responsibilities and
1526 costs which would seem would be something that the players
1527 would incur, would that not then naturally drive them to the
1528 cheaper site in their views?

1529 Mr. {Abboud.} Well, I think--

1530 Mr. {Harper.} If you haven't stopped the offshore
1531 illegal sites.

1532 Mr. {Abboud.} Thank you. I think if you don't--if it
1533 was to be legalized today and we don't shut off the illegal
1534 operators, I think that the industry as it exists today is at

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1535 an unfair advantage because they will be operating in the
1536 regulated environment. There is nothing that is going to
1537 prevent the illegal operator for what we call giving away the
1538 market, giving away the house, adding more incentives, making
1539 it easier to get online. They will go down to the bottom,
1540 and it will be easier to go to the illegal sites unless we
1541 shut them down, unless it is a complete uniform shutdown of
1542 Internet gaming.

1543 Mr. {Harper.} I thank each of you for being here. My
1544 time is expired and yield.

1545 Mr. {Terry.} Thank you. And now the gentleman from
1546 Ohio, Mr. Johnson, is recognized.

1547 Mr. {Johnson.} I thank you, Mr. Chairman. You know, I
1548 believe strongly that states' rights plays a predominant role
1549 in the decisions that we will make about gaming. I think the
1550 state governors, the legislatures, the people of the states
1551 are much more--in a better position to be able to decide what
1552 they want than regulators here in Washington, D.C. But I
1553 also understand, being an IT geek myself, that the Internet
1554 has opened the door to a different kind of technology that
1555 has to be looked at and evaluated.

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1556 Mr. Freeman, let us start with you. The AGA has changed
1557 its position on Internet gaming over the years. What is its
1558 current position on Internet poker and online gaming? Do you
1559 want a federal law or do you want the states to be in charge
1560 of that?

1561 Mr. {Freeman.} The AGA's position was adopted in 2010,
1562 and that is the current position of the organization. We
1563 support a Federal Government role here in regulating this.
1564 We support a poker solution at the federal level, and we
1565 support the ability of states to opt-in as to whether or not
1566 they choose to want to offer that game.

1567 In the absence of federal action, states have moved
1568 forward with this. We have begun to see states like New
1569 Jersey do this in a very effective manner, along with Nevada
1570 and Delaware. And it is true, the industry is increasingly
1571 interested in what New Jersey is doing because they are
1572 proving they can do it effectively. And that is of great
1573 interest to us.

1574 Mr. {Johnson.} Yeah. You know, my concern from a
1575 technological perspective is to say we are going to regulate
1576 it is one thing. To do it effectively and protect the

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1577 innocent, you know--I do believe that gambling is an
1578 enticement to some who would see a potential quick fix to a
1579 financial problem. I understand that. I also understand
1580 though that we don't outlaw prescription drugs because some
1581 people fall victim to addictions to prescription drugs. It
1582 is all about the choice, and I firmly believe that the
1583 American people have the ability to make those kinds of
1584 decisions.

1585 My concern is how the technology, how protections would
1586 be put in place to protect minors, to protect children, to
1587 protect the situation that our chairman talked about where
1588 his kid uses his credit card and goes out a couple hundred
1589 thousand dollars away without him knowing about it, because
1590 we know today that minors, young people, others that should
1591 not get to certain restricted adult sites and other sites are
1592 able to do so because again, being an IT geek myself, I know
1593 that there is no perfect security.

1594 So how do you--those of you that are proponents, you can
1595 just sound off one at a time if you want to. How do you
1596 propose to make sure that our innocent young people aren't
1597 the ones, and maybe people like my chairman who wind up with

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1598 a couple of hundred thousand dollar gambling debt that he
1599 didn't know was going to be on his credit card, to fall
1600 victim?

1601 Mr. {Pappas.} If I can respond first, and thank you for
1602 the question, I think it is very important that we look at
1603 these issues and that we see how regulation can solve them.
1604 Again, we are not talking about a theoretical, can this be
1605 regulated. This is being regulated today in three states,
1606 and it has been regulated in European jurisdictions for over
1607 10 years. Ten years. This is not in its infancy. This is a
1608 mature industry that has dealt with these issues for over a
1609 decade and responded to them accordingly.

1610 With respect to underage access, I have already
1611 mentioned to you that there has not been a single reported
1612 incident of underage access because of this tight age-
1613 verification technologies that are available. It is not
1614 simply going on and clicking here. I am 18 or I am 21, let
1615 me gamble. You have to go through multi-layer age
1616 verification to not only prove that you are who you say you
1617 are but that you are of the approved age. So it is certainly
1618 not like any other form of e-commerce that is not age

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1619 restricted. This is very restrictive.

1620 In terms of problem gambling, there are very specific
1621 ways to address it, and I would argue, and this may blow
1622 people's minds, I would argue that it is easier to protect
1623 problem gamblers online than it is in the brick-and-mortar
1624 casino. I could walk into the Venetian tomorrow with \$1,000
1625 in my pocket, play roulette, play craps and play poker and
1626 walk out and not a single person knows I was in the casino
1627 and I lost \$1,000. Online it is impossible. They know every
1628 moment you are on the site. They know every game you are
1629 playing, every wager you are making, every win you are
1630 making, every loss you are making. It is tracked and
1631 recorded in real time, and regulators recognize that that
1632 wealth of data is gold in terms of properly regulating and
1633 ensuring that it is not abused.

1634 Mr. {Johnson.} I appreciate your passion, and my time
1635 has run out. I would simply point out we have got a prime
1636 example with HealthCare.gov. Regulated does not necessarily
1637 equal secure.

1638 Mr. {Terry.} Thank you, Mr. Johnson. At this time I
1639 recognize Mr. Long from Missouri.

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1640 Mr. {Long.} Thank you, Mr. Chairman, and Mr. Johnson,
1641 with your comments about the chairman, I am going to miss you
1642 on this subcommittee.

1643 Mr. {Terry.} Oh, and by the--

1644 Mr. {Long.} I want one of those credit cards where you
1645 get \$100,000 on there or whatever that is.

1646 Mr. {Terry.} To clarify for the record, he was not
1647 gambling. He was buying lacrosse stuff and iTunes.

1648 Mr. {Long.} Mr. Abboud, I got a question for you.
1649 Unfortunately during these hearings, we can now go back and
1650 pull the transcript immediately, so I thought I heard you
1651 saying--correct me if I am wrong--but when you were talking
1652 to Mr. Terry early on--in fact, I think he did the first
1653 questioning after you all gave your openings. I thought I
1654 understand you to say that you are okay if poker is legalized
1655 on the Internet as long as it is not expanded to include all
1656 forms of gambling.

1657 Mr. {Abboud.} No, we are, for the record, we are
1658 opposed to all forms of Internet gaming.

1659 Mr. {Long.} Okay. I will have to go back and listen to
1660 that because that is what I thought I heard. Mr. Eggert, as

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1661 far as these poker bots are concerned, these are computer
1662 programs that they operate how? Is this the people running
1663 the site has someone playing against you or is this someone
1664 in their apartment that hooks up to a computer and acts like
1665 they are a living, breathing person playing a living,
1666 breathing person in another state or another country or how
1667 do they work?

1668 Mr. {Eggert.} They can be both types. There have been
1669 poker sites that have used bots to stimulate games so that
1670 there are more people to sit down at a game.

1671 Mr. {Long.} Kind of like a shell in a casino then?

1672 Mr. {Eggert.} Right.

1673 Mr. {Long.} Okay.

1674 Mr. {Eggert.} And you know there they should be telling
1675 people it is a bot, but they haven't always done that. But
1676 the bots that are of most concern are not from the site, are
1677 ones that people have designed. They are running on their
1678 home computers so it looks like they are playing, but
1679 actually the decisions they are making, whether to bet or
1680 raise or fold are being made by the computer software and not
1681 by a human.

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1682 Mr. {Long.} Okay. And Mr. Freeman, for you, a few
1683 years ago, I think back 10 years ago, there was a guy whose
1684 name was Moneymaker, believe it or not, that won the world
1685 series of poker which he had gotten in on what they call a
1686 satellite. He played 40 bucks or something to play a
1687 tournament, ended up winning 6 or 7 million, whatever it was.

1688 So that kind of really put jet fuel into the whole
1689 Internet poker thing which it thrived for several years until
1690 the Black Friday shutdown. But during the course of that
1691 there were some very high-profile cheating scandals where the
1692 operators of these sites were actually looking at your cards,
1693 at the other people they were playing cards, and with the
1694 skill of the poker players, they realized after a fashion--I
1695 think 60 Minutes did a special on that. If this legislation
1696 goes through, how can people be assured that that type of
1697 activity does not continue or starts in again I guess?

1698 Mr. {Freeman.} Yeah, Congressman I think you speak to
1699 exactly the market we all want to prevent. In those days
1700 with companies based in Costa Rica and elsewhere around the
1701 world, where we didn't have the protections, we didn't have
1702 the regulations built in, there were a lot of scary things

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1703 that took place. What we are talking about is a regulated
1704 environment with licensed companies. It was a real reason
1705 that licensed companies don't want to see underage people
1706 online. There is a real reason licensed companies don't want
1707 to see cheating take place. That is because they can lose
1708 their license, not just of their on-line facility but their
1709 brick-and-mortar facility in which it has already been
1710 mentioned they have invested billions of dollars. You have a
1711 moral and a business incentive for the industry to do this in
1712 the most proper, regulated and effective manner, and that is
1713 what will assure, rather than the black market, that is what
1714 will assure that consumers are protected.

1715 Mr. {Long.} I know with your American Gaming
1716 Association that you represent several members that I assume
1717 they all have brick-and-mortar facilities, do they not?

1718 Mr. {Freeman.} Everyone within our association on the
1719 operator's side has a brick-and-mortar facility. We also
1720 have all the leading manufacturers in the industry as well.

1721 Mr. {Long.} And I know you can't say into the future,
1722 but as your best guess, if this legislation did pass and
1723 people were authorized to open up online poker only casinos,

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1724 let us say, do you visualize that being an MGM, a Caesars, a
1725 Sands, a Wynn? Will it be the operators that are out there
1726 now in the brick-and-mortar marketplaces or will it be
1727 smaller operators?

1728 Mr. {Freeman.} Yeah, I think that goes back to
1729 Congressman Harper's point before. How do we protect the
1730 brick-and-mortar investments that have taken place in
1731 Mississippi and Missouri and elsewhere? You already have
1732 these facilities standing. How do we make sure that they
1733 thrive? We allow them to tap into the new market. If we
1734 don't allow them to tap into the new market, we can assure
1735 that they go the way of Borders and Blockbuster and others if
1736 they can't adapt, if they can't keep up with innovation.

1737 Mr. {Long.} Yeah, but my question is do you think they
1738 will be the only ones that would--

1739 Mr. {Freeman.} I think it is up to states to determine
1740 how they want to structure this. In New Jersey they have
1741 structured it in such a way where the brick-and-mortar
1742 facilities are the only ones that can offer it.

1743 Mr. {Long.} One quick question because I don't have
1744 time to go to someone else so I will ask you. Nevada

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1745 apparently has online poker now, New Jersey is going forward
1746 and Delaware I believe were the three. But let us say that
1747 they all three had it tomorrow. Can those people in Nevada
1748 own--do you have to be a resident of those states, number
1749 one, to play when you are in, physically in those states?
1750 And can you play if you are in Nevada and New Jersey has it
1751 now, let us say, could someone in Nevada play against someone
1752 in New Jersey or do Jersey people all play against Jersey
1753 people and Nevada against Nevada or Delaware?

1754 Mr. {Terry.} The gentleman's time is over, but I will
1755 give you 10 seconds--

1756 Mr. {Freeman.} Thank you.

1757 Mr. {Terry.} --to order.

1758 Mr. {Freeman.} I also have two points.

1759 Mr. {Terry.} To answer.

1760 Mr. {Freeman.} One, you don't have to be a resident of
1761 the state. You have to be within the boundaries of the state
1762 as identified by geolocation companies, number one. Number
1763 two, on your point about can these states work together.
1764 They probably can. They have not reached agreements to date,
1765 but that option is there for New Jersey, Delaware and Nevada

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1766 to begin to work together.

1767 Mr. {Long.} Okay. Thank you.

1768 Mr. {Terry.} Thank you, and that concludes time for
1769 questions. I do have a unanimous consent request to include
1770 the following items for the record, one, statement of the
1771 National Indian Gaming Association; number two, statement of
1772 Lyle Beckwith on behalf of the National Association of
1773 Convenience Stores; number three, statement of Mr.--is that
1774 Thaxton?

1775 {Voice.} Yes.

1776 Mr. {Terry.} Independent software engineer. Number
1777 four, exchange of correspondence between the late Mr. C. W.
1778 Bill Young of Florida and the FBI. Hearing no objections, so
1779 ordered.

1780 [The information follows:]

1781 ***** COMMITTEE INSERT *****

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|

1782 Mr. {Terry.} And the next item of business is that we
1783 have, we as the members, have the right to submit questions
1784 to you, written questions. We will hopefully have those done
1785 within the next couple weeks, and I would appreciate about 14
1786 business days. We don't hold you to an exact standard, but
1787 appreciate if you would get written questions from the
1788 members, from this committee, that you, within about 14 days,
1789 have them back to us. I would appreciate that.

1790 And I just want to thank all of our witnesses for being
1791 here. This was a good discussion. Sometimes we made it a
1792 little light, but this is an extremely important issue. I
1793 will make this comment. When Mr. Barton first introduced
1794 this bill, a lot of us thought it was pretty way out there.
1795 But with this decision by the Justice Department, it makes it
1796 a very relevant question and one that we have to deal with.

1797 Mr. {Barton.} Would the gentleman yield a moment?

1798 Mr. {Terry.} Absolutely.

1799 Mr. {Barton.} Well, my first bill that I introduced in
1800 this committee was to repeal the Natural Gas Policy Act of
1801 wellhead pricing on natural gas, and that was at that time

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1802 way out there because John Dingell was chairman.

1803 Mr. {Terry.} Good point.

1804 Mr. {Barton.} That happened. About 5 or 6 years ago I
1805 started an effort and held a hearing on the BCS, and
1806 everybody thought that was crazy. Well, thankfully this is
1807 the last year of the BCS, and we are going to a modified
1808 playoff. So Mr. Chairman, the time is coming for this bill.

1809 Mr. {Terry.} We have always thought of you on the
1810 cutting edge.

1811 Mr. {Barton.} So time is on our side. Thank you, again
1812 chairman for holding the hearing.

1813 Mr. {Terry.} Well, thank you. And so again, I thank
1814 all of our witnesses, and we are adjourned.

1815 [Whereupon, at 2:18 p.m., the Subcommittee was
1816 adjourned.]